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CMC MAGNETICS CORP., HOTAN CORP., and
KHYPERMEDIA CORP.

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

MATSUSHITA ELECTRIC INDUSTRIAL
CO., LTD.,

Plaintiff,

v.

CMC MAGNETICS CORP., HOTAN
CORP., and KHYPERMEDIA CORP.,

Defendants.

Case No. C 06-04538 WHA

AMENDED ANSWER AND
COUNTERCLAIMS
OF DEFENDANTS CMC MAGNETICS
CORP., HOTAN CORP., AND
KHYPERMEDIA CORP.

DEMAND FOR JURY TRIAL

1 In response to the Court's November 13, 2006, Order Denying Matsushita's
2 Motion to Dismiss; Motion to Strike; and Granting Motion for a More Definite Statement, and
3 in response to the allegations in the Complaint filed by Plaintiff Matsushita Electric Industrial
4 Co., Ltd. (MEI) on July 26, 2006, Defendants CMC Magnetics Corporation (CMC), Hotan
5 Corporation (Hotan), and KHypermedia Corporation (KHypermedia) (collectively,
6 "Defendants") submit their Amended Answer and Counterclaims, and further allege as follows:

7 **ANSWER**

8 1. Defendants admit that the Complaint purports to state a cause of action
9 arising under the patent laws of the United States (Title 35, U.S.C., section 271 et seq), and
10 that MEI has requested damages and a permanent injunction. Defendants deny that they
11 infringe the asserted patents and that the asserted patents generally relate to the field of
12 recordable DVDs. Defendants lack sufficient information to admit or deny the remaining
13 allegations in Paragraph 1 of the Complaint, and therefore deny the same.

14 2. Defendants lack sufficient information to admit or deny the allegations in
15 Paragraph 2 of the Complaint, and therefore deny the same.

16 3. Defendants KHypermedia and Hotan deny that they are in the business of
17 manufacturing recordable information media. Defendants admit the remaining allegations in
18 Paragraph 3 of the Complaint.

19 4. Defendants admit the allegations in Paragraph 4 of the Complaint.

20 5. Defendants admit that the Court has personal jurisdiction over Defendants,
21 and that Hotan and KHypermedia are organized under the laws of the State of California.
22 Defendants deny the remaining allegations in Paragraph 5 of the Complaint.

23 6. Defendants admit that venue is proper in this judicial district, but deny the
24 remaining allegations in Paragraph 6 of the Complaint.

25 7. Defendants deny the allegations in Paragraph 7 of the Complaint.

26 8. The responses to Paragraphs 1-7 are incorporated herein by reference in
27 response to Paragraph 8 of the Complaint.
28

1 9. Defendants admit that U.S. Patent No. 4,847,132 (the '132 patent) bears the
2 title "Protective Layer for Optical Information Recording Medium," that it names Masatoshi
3 Takao, Kunio Kimura, Toshimitsu Kurumizawa, and Kenichi Nagata as inventors, and that it
4 was issued on July 11, 1989. Defendants deny, however, that the '132 patent was duly and
5 legally issued. Defendants lack sufficient information to admit or deny the remaining
6 allegations in Paragraph 9 of the Complaint, and therefore deny the same.

7 10. Defendants deny the allegations in Paragraph 10 of the Complaint.

8 11. Defendants deny the allegations in Paragraph 11 of the Complaint.

9 12. Defendants deny the allegations in Paragraph 12 of the Complaint.

10 13. The responses to Paragraphs 1-7 are incorporated herein by reference in
11 response to Paragraph 13 of the Complaint.

12 14. Defendants admit that U.S. Patent No. 5,790,487 (the '487 patent) bears the
13 title "Optical Information Recording Medium, Optical Information Recording Method, and
14 Optical Information Recording Apparatus Utilizing the Same," that it names Mitsurou Moriya,
15 Osamu Yamaguchi, Yoshihisa Fukushima, and Namio Hirose as inventors, and that it was
16 issued on August 4, 1998. Defendants deny, however, that the '487 patent was duly and
17 legally issued. Defendants lack sufficient information to admit or deny the remaining
18 allegations in Paragraph 14 of the Complaint, and therefore deny the same.

19 15. Defendants deny the allegations in Paragraph 15 of the Complaint.

20 16. Defendants deny the allegations in Paragraph 16 of the Complaint.

21 17. Defendants deny the allegations in Paragraph 17 of the Complaint.

22 18. The responses to Paragraphs 1-7 are incorporated herein by reference, in
23 response to Paragraph 18 of the Complaint.

24 19. Defendants admit that U.S. Patent No. RE37,185 (the '185 patent) bears the
25 title "Optical Head," that it names Isao Satoh, Sadao Mizumo, and Noboru Itoh as inventors,
26 and that it was issued on May 22, 2001. Defendants deny, however, that the '185 patent was
27 duly and legally issued. Defendants lack sufficient information to admit or deny the remaining
28 allegations in Paragraph 19 of the Complaint, and therefore deny the same.

20. Defendants deny the allegations in Paragraph 20 of the Complaint.

21. Defendants deny the allegations in Paragraph 21 of the Complaint.

22. Defendants deny the allegations in Paragraph 22 of the Complaint.

AFFIRMATIVE DEFENSES

23. Defendants hereby state the following affirmative defenses to MEI's claims of infringement of the '132 patent, the '487 patent, and the '185 patent (collectively, "the asserted patents").

First Affirmative Defense (Non-Infringement)

24. Defendants have not infringed and are not infringing any claim of the asserted patents, either directly or indirectly.

Second Affirmative Defense (Invalidity)

25. The claims of the asserted patents are invalid, void, and/or unenforceable for failure to comply with the conditions and requirements of patentability set forth in the patent statute and rules, Title 35 of the United States Code and Title 37 of the Code of Federal Regulations, and associated rules and law, including without limitation 35 U.S.C. §§ 101, 102, 103, 112, and 251.

Third Affirmative Defense (Laches)

26. The relief that MEI seeks through this action is barred by the equitable doctrine of laches.

Fourth Affirmative Defense (Inequitable Conduct)

27. The asserted patents are unenforceable due to inequitable conduct during their prosecution in the United States Patent and Trademark Office (the Patent Office), as set forth in the following paragraphs.

A. The '132 Patent

28. The '132 patent is unenforceable due to inequitable conduct. For example, during the pendency of the application that matured into the '132 patent, at least the named inventors or their representatives (collectively, "the applicants") knew of several prior art references that were material to the patentability of the '132 patent and failed to disclose these

1 references to the Patent Office. The material references that the applicants withheld from the
2 Patent Office include at least Japanese Patent Application Nos. JP-A-61034747, JP-A-
3 62222442, JP-A-62121944, and European Application No. EP-A-0184452.

4 29. Upon information and belief, the applicants were aware of these references
5 prior to the issuance of the '132 patent, at least because the references were identified in a
6 European Patent Office (EPO) search report. In particular, on June 5, 1989, during the
7 examination of a European counterpart to the '132 patent, and prior to the issuance of the '132
8 patent, the EPO generated a search report that identified these four prior art references.

9 30. The applicants did not disclose any of these references to the Patent Office
10 during the pendency of the '132 patent. These references were material to the patentability of
11 the '132 patent, are not cumulative of other information that was disclosed to the Patent Office
12 during the prosecution of the '132 patent, and were withheld from the Patent Office with an
13 intent to deceive.

14 **B. The '487 Patent**

15 31. The '487 patent is unenforceable due to inequitable conduct. For example,
16 during the pendency of the application that matured into the '487 patent, at least the named
17 inventors or their representatives (collectively, "the applicants") knew of several prior art
18 references that were material to the patentability of the '487 patent and failed to disclose these
19 references to the Patent Office. The material references that the applicants withheld from the
20 Patent Office include at least JP7-141786, JP60-067061, and JP62-097179.

21 32. The applicants were aware of these references prior to the issuance of the
22 '487 patent, at least because the references were identified to the applicants by the Japanese
23 Patent Office (JPO). In particular, while the application for the '487 patent was pending, the
24 JPO cited these and other references as material prior art against the Japanese counterpart
25 application to the '487 patent.

26 33. The applicants did not disclose any of these references to the Patent Office
27 during the pendency of the '487 patent. These references are material to the patentability of
28 the '487 patent, are not cumulative of other information that was disclosed to the Patent Office

1 during the prosecution of the '487 patent, and were withheld from the Patent Office with an
2 intent to deceive.

3 **C. The '185 Patent**

4 34. The '185 patent is unenforceable due to inequitable conduct. For example,
5 during the pendency of the application that matured into the '185 patent, at least the named
6 inventors or their representatives (collectively, "the applicants") knew of several prior art
7 references that were material to the patentability of the '185 patent and failed to disclose these
8 references to the Patent Office. The material references that the applicants withheld from the
9 Patent Office include at least U.S. Patent No. 4,773,052 (the '052 patent), U.S. Patent No.
10 4,701,032 ('032 patent), JP 52-153705 (JP '705 patent), JP 60-125945 (JP '945 patent), JP 62-
11 250530 (JP '530 patent), JP 63-313379 (JP '379 patent), JP 64-027046 (JP '046 patent), an
12 excerpt from a book published in 1989 entitled "Rewriteable Laser Disc Material," an excerpt
13 from a book published in 1989 entitled "Laser Discs," an article entitled "Laser Disc System"
14 published in a Japanese journal in November 1981, JP 60-32142, JP 61-210531, an excerpt
15 from a book published in 1988 entitled "New Media Technology Series -- Laser Disc," and a
16 1986 Nikkei Electronics article excerpt.

17 35. The applicants were aware of these references prior to the issuance of the
18 '185 patent, at least because the references were identified to the applicants by the EPO and
19 the JPO. In particular, two of these references, the '052 patent and the '032 patent, were cited
20 by the EPO during the examination of the applications for EP 0 862 165 and EP 0 862 166,
21 both of which were European counterparts of the '185 patent. Moreover, the abstract of the JP
22 '705 patent was cited by the EPO in the European Search Report for EP 0 452 953, which also
23 is a European counterpart of the '185 patent. All three references were cited by the EPO prior
24 to the issuance of the '185 patent. In addition, prior to the issuance of the '185 patent, the JPO
25 cited the JP '945 patent, the JP '530 patent, the JP '379 patent, and the JP '046 patent as prior
26 art during the prosecution of a Japanese counterpart application. The remaining references
27 listed above were cited prior to the issuance of the '185 patent during opposition proceedings
28

1 against the Japanese counterpart patent, including the oppositions numbered 9-75644-1,
2 9-75644-3, and 9-75644-4.

3 36. The applicants did not disclose any of these references to the Patent Office
4 during the pendency of the '185 patent. These references are material to the patentability of
5 the claims in the '185 patent, are not cumulative to the information disclosed during the
6 prosecution of the '185 patent, and were withheld from the Patent Office with an intent to
7 deceive. Moreover, one or more of these references contradict arguments that the applicants
8 made to the Patent Office in order to overcome prior art cited during the prosecution of the
9 '185 patent.

10 **Fifth Affirmative Defense (License)**

11 37. The activities alleged to constitute infringement are covered by one or more
12 licenses to the asserted patents.

13 **Sixth Affirmative Defense (Patent Misuse)**

14 38. Defendants incorporate by reference the allegations in Paragraphs 27-36,
15 above.

16 39. Upon information and belief, MEI has committed patent misuse through its
17 licensing behavior, its activities in connection with standard-setting organizations, its activities
18 in connection with patent pooling arrangements relating to the asserted patents, and/or because
19 it has attempted to license and/or enforce the asserted patents even though it knew or should
20 have known them to be invalid and/or unenforceable, as set forth in Paragraphs 27-36.

21 40. Through its standard-setting, patent pooling, and licensing activities, MEI
22 has conspired with its competitors and other entities with the purpose and effect of unlawfully
23 monopolizing and/or obtaining market power in at least one relevant market. By and through
24 its patents, including the asserted patents, MEI has used its monopoly and/or market power to
25 suppress competition in one or more relevant markets. MEI's acts in this regard, as detailed
26 below, constitute patent misuse and therefore render the asserted patents unenforceable.

27 41. The relevant markets include at least the technology, licensing, and product
28 markets applicable to high-density optical discs for distribution and/or recording of feature-

1 length films, and the technology, licensing, and product markets for DVD discs, players, and
2 recorders. MEI participates in these markets, has monopoly and/or market power in at least
3 the relevant technology and licensing markets, and exercises that power in at least the relevant
4 licensing and product markets. The relevant markets include both the United States and
5 worldwide geographic markets.

6 42. The DVD technology involved in this case is associated with a technology
7 standard known as the DVD standard. The standard is allegedly covered by patents owned by
8 at least 10 different companies, including MEI. Today, products made according to the DVD
9 standard represents the vast majority of means for distribution of feature-length films for in-
10 home use. Moreover, use of DVD discs requires the purchase of relatively expensive
11 hardware, such as DVD players or recorders. The large installed base of such equipment, and
12 the significant costs associated with replacing such equipment with potential alternatives,
13 ensure that other distribution means will rarely, if ever, be used as substitutes for DVDs. As a
14 result, DVD discs represent a separate product market from other distribution and recording
15 means, and the licenses to patents for practicing the DVD standard represent a separate
16 licensing market or markets.

17 43. MEI established its monopoly and/or market power by conspiring with its
18 competitors to foreclose the emergence of competing technology and by improperly
19 manipulating the formulation of what became today's DVD standard. Prior to the
20 establishment of the DVD standard, MEI conspired with its competitors to create a high-
21 capacity optical disc format similar to DVDs, called the SuperDensity disc format (SD
22 format). MEI promoted the SD format in consort with the majority of its competitors in the
23 consumer electronics industry, including Toshiba, Time-Warner, Hitachi, Mitsubishi Electric,
24 Pioneer, and Thomson, (collectively, "the SD Group"). Upon information and belief, the
25 members of the SD Group possessed a majority of worldwide capacity for the research,
26 development, and commercialization of such technology, and agreed amongst themselves to
27 promote a single format rather than developing and promoting competing formats.
28

1 44. Upon information and belief, the SD Group devised the SD format so as to
2 maximize the number of entities within the Group who own patents covering the format. The
3 SD group furthered this goal by incorporating unnecessary restrictions in the format that
4 furthered no recognizable procompetitive goal of standard-setting. Rather, the SD Group
5 defined these features so as to preclude the use of unpatented alternatives or otherwise with the
6 goal of ensuring that the format was allegedly covered by patents owned by as many of the
7 Group's members as possible, including MEI's '487 and '185 patents. Upon information and
8 belief, the SD Group pursued this strategy in order to eliminate any incentive of its members to
9 independently develop competing technologies or products and to further preclude competition
10 by erecting substantial barriers to entry into the relevant markets by any entities outside the SD
11 Group. Overall, the anticompetitive effects of this standard-setting process have substantially
12 outweighed any procompetitive effects. Through this standard-setting activity, MEI has
13 attempted to expand the scope of its patents, including the asserted patents, with anti-
14 competitive effect, to reduce or eliminate competition in the licensing of third parties to use the
15 format, and to increase the cost to consumers of using the format.

16 45. MEI has also committed patent misuse through its participation in the DVD
17 standard-setting organizations, by conspiring with its competitors to monopolize or otherwise
18 suppress competition in one or more relevant markets relating to DVD technology.

19 46. MEI was a founding member of the DVD Consortium, which later became
20 the DVD Forum. The DVD Forum was a closed consortium formed to define a single
21 standard for high-capacity optical discs, known as DVDs for the distribution and recording of
22 high-resolution video and feature-length films for in-home viewing. On information and
23 belief, the original members of the DVD Forum represent the vast majority of capacity in the
24 world for the design, research, development, and commercialization of optical disc and other
25 consumer electronics products and technologies. Therefore, by participating in the DVD
26 Forum, MEI conspired with most or all of its significant competitors to ensure that no
27 competing technology would emerge.
28

1 47. The DVD standard is allegedly covered by numerous patents belonging to
2 most or all of the original members of the DVD Forum. Several of these patents belong to
3 MEI, including the asserted '487 and '185 patents. By attempting to incorporate its patents
4 into the only available DVD standard and refusing to license such patents on commercially
5 reasonable terms, MEI is able to foreclose entry into at least the United States product markets
6 relating to DVDs.

7 48. Prior to the agreement among the DVD Forum members to develop a single
8 standard, two separate DVD-like formats were being developed by respective consortia of
9 companies who later became the original members of the DVD Forum. One of these formats
10 was the SD format sponsored by MEI and others, as discussed above. The other format, called
11 MultiMedia Compact Disc (MMCD), was sponsored by Philips and Sony. Rather than
12 releasing these two formats to the public as competing alternatives, the sponsors of each
13 format agreed to merge the two formats into a single standard, which became the original
14 DVD standard.

15 49. Upon information and belief, MEI and other members of the DVD Forum
16 conspired to monopolize one or more relevant markets by devising the DVD standard so that
17 most or all members of the DVD Forum owned patents covering the standard. MEI and the
18 Forum furthered this goal by incorporating unnecessary restrictions or requirements in the
19 standards, so as to ensure that the standard was covered by as many of the DVD Forum
20 members' patents as possible. Many of these restrictions do not further any "procompetitive"
21 goal, such as promoting interoperability among various products that were designed according
22 to the standard. Rather, on information and belief, the members of the DVD Forum selected
23 and defined certain features of the standard in order to preclude the use of unpatented
24 alternatives or otherwise to ensure that most or all of the original DVD Forum members would
25 have patents that allegedly cover the standard. Upon information and belief, the members of
26 the DVD Forum furthered this goal by, inter alia, agreeing to base the DVD standard on the
27 SD format, which was designed with the goal of being covered by patents owned by the SD
28 format's sponsors, but to replace certain features of the SD format with corresponding features

1 from the MMCD format that are allegedly covered by Philips's and/or Sony's patents. Upon
2 information and belief, this agreement, in combination with agreements among the members to
3 license each other for very small or no royalties and to demand and share much higher
4 royalties from outsiders wishing to implement the standard, had the purpose and/or effect of
5 eliminating any incentive or likelihood that the DVD Forum members would develop or
6 promote competing technologies.

7 50. The merger of these two consortia and their respective formats into a single
8 standard has caused significant anticompetitive effects in the relevant technology, licensing,
9 and product markets. The merger has eliminated many economic benefits that would have
10 resulted from competition between two or more comparable technologies. For example, the
11 merger of formats has significantly reduced competition for development and use of
12 alternatives to, or improvements of existing features, and has completely eliminated
13 competition in licensing of allegedly essential patents to outside adopters (e.g. through royalty
14 rate competition or competition to improve marketing support or features). Overall, the
15 anticompetitive effects of the DVD standard-setting process have substantially outweighed any
16 procompetitive effects.

17 51. MEI's standard-setting activities have greatly increased the royalty burden
18 borne by outside parties seeking to implement the DVD standard. MEI's collusion with its
19 competitors in forming the DVD standard has significantly increased the number of patents
20 and the number of licenses allegedly needed to practice the DVD standard. Had the two
21 competing formats not merged into a single standard, for instance, a party seeking to
22 implement one of two or more competing formats would only need to license patents from a
23 subset of the companies that now demand royalties to practice the DVD standard. The merger
24 has forced prospective licensees to negotiate licenses with a larger number of entities and has
25 increased the total amount of demanded royalties and other costs compared with what
26 prospective licensees otherwise would have encountered in a competitive technology and
27 licensing market.
28

1 52. The elimination of competition among DVD-like formats has also enabled
2 the DVD Forum members to collude in setting the prices for the licensing of intellectual
3 property allegedly needed to practice the DVD standard, and to set those prices without regard
4 to conditions that would exist in a competitive licensing market. Patents that are allegedly
5 essential to practice the DVD standard are included in various patent pools licensed by the
6 DVD 6C Licensing Agency (6C Agency), of which MEI is a member and exclusive agent for
7 the Americas, as well as a patent pool known as the DVD 3C patent pool, which is
8 administered by Philips. In the absence of competition for licensees, MEI, the 6C Agency, and
9 others have agreed to set, and are attempting to extract royalties for their patents at rates that
10 greatly exceed the rates that could be obtained in a competitive marketplace. By its successful
11 efforts to preclude the emergence of competing technologies, MEI has left potential licensees
12 with no alternative but to accept the terms demanded by MEI and the 6C Agency, however
13 unreasonable, or to shut down operations or face litigation.

14 53. With respect to the accused products, the unlawfully inflated royalty burden
15 collectively demanded by the respective DVD Forum members represents such a large portion
16 of the overall cost of the downstream products that it would preclude companies like CMC
17 from participating in the relevant product markets. Therefore, MEI's standard-setting
18 activities and subsequent efforts to enforce its related patents, if successful, will create
19 insurmountable barriers to entry into, and will substantially reduce output and/or substantially
20 increase prices in the relevant product markets, thereby harming consumers.

21 54. Through its standard-setting activities in connection with the DVD Forum
22 and by impermissibly conspiring with other members thereof, MEI has expanded the scope of
23 the '185 and '487 patents beyond their proper statutory bounds, with anticompetitive effect,
24 thereby rendering them unenforceable.

25 55. Upon information and belief, MEI has committed patent misuse through its
26 patent pooling and licensing activities, at least because it has tied licenses for non-essential
27 patents to licenses for patents allegedly essential to practice the DVD standard.

1 56. MEI's DVD-related patents are licensed in "patent pools" that combine
2 MEI's patents with those of several of its competitors and other entities. The patent pools are
3 licensed on MEI's behalf by the 6C Agency, which administers a licensing program involving
4 the patents of a consortium of at least nine companies: MEI; Toshiba Corporation; Mitsubishi
5 Electric Corporation; Victor Co. of Japan; Hitachi Ltd.; Warner Bros. Home Entertainment
6 Inc.; Samsung Electronics Co., Ltd.; Sanyo Electric Company; and Sharp Corporation.

7 57. MEI is one of the six founding members of the 6C Agency and its licensing
8 program, and acts as the 6C Agency's exclusive regional agent for the Americas. Under the
9 6C Agency's licensing program, MEI and its co-conspirators agreed to license "each other and
10 third parties to make, use and sell DVD Products under their present and future patents that are
11 essential to doing so." The 6C Agency, under MEI's direction, licenses these DVD-related
12 patents to companies outside of the 6C Agency.

13 58. More than four hundred patents allegedly relating to DVD technology are
14 currently being licensed by the 6C Agency, including the '487 and '185 patents being asserted
15 in this litigation. These patents are organized into numerous patent pools, each of which is
16 directed to a specific type of DVD product (e.g. DVD-Video discs or DVD-RW discs). The
17 6C Agency does not offer licenses to individual patents in the pools, but instead only licenses
18 each patent as part of an entire package of patents.

19 59. The '185 and '487 patents are licensed through the 6C Agency. They are
20 included in several of the aforementioned patent pools, including at least the pools associated
21 with the following DVD formats: DVD-ROM, DVD Video, DVD Audio, DVD-R, DVD-RW,
22 and DVD-RAM. In order to take a license from the 6C Agency, a prospective licensee must
23 take and pay for a license for an entire package of patents. Patents cannot be licensed
24 individually from the 6C Agency. Moreover, upon information and belief, to the extent that
25 MEI offers licenses to its own allegedly essential patents apart from the 6C Agency, the
26 package licenses MEI offers also contain non-essential patents.

27 60. Upon information and belief, MEI and the 6C Agency acting on MEI's
28 behalf, have tied non-essential patents to allegedly essential patents in the patent pools. For

1 instance, although MEI and the 6C Agency claim that all patents in the patent pools they offer
 2 are essential to practice the DVD standard, a proper essentiality analysis has not been applied
 3 in analyzing patents for inclusion in the patent pools. Upon information and belief, the outside
 4 analyst who was retained to conduct an essentiality analysis included patents in the pools if he
 5 believed that any claim read directly on a feature of the corresponding standard or if they were
 6 deemed to be "essential as a practical matter" because there was no realistic alternative to
 7 using them. Contrary to his analysis, however, there are realistic alternatives to the so-called
 8 essential patents in the patent pools. As a result, the pools contain non-essential patents.

9 61. MEI has supported, endorsed, and benefited from the aforementioned
 10 activities of the 6C Agency. Such licensing activities have harmed innovation and competition
 11 in the markets for development and licensing of optional implementation technologies for
 12 DVD products that would otherwise compete with the aforementioned non-essential patents if
 13 such patents were not tied to allegedly essential patents in the patent pools. The
 14 anticompetitive effects that result from this tying outweigh any procompetitive effect that these
 15 activities might have. As a result, through its activities in connection with the 6C Agency, and
 16 through its own licensing activities, MEI has impermissibly expanded the scope of the '185
 17 and '487 patents, thereby rendering them unenforceable.

18 62. MEI has also committed patent misuse with respect to all of the asserted
 19 patents by attempting to license and/or enforce the asserted patents even though it knew or
 20 should have known them to be invalid and/or unenforceable, as set forth in Paragraphs 27-36.

21 **COUNTERCLAIMS**

22 Defendants assert the following counterclaims against MEI.

23 **Parties**

24 1. CMC is a corporation organized and existing under the laws of Taiwan, ROC,
 25 with its principal place of business located at 53 W. Ming Chuan Rd., 15th Floor, Taipei, Taiwan,
 26 R.O.C.

2. Hotan is a corporation organized and existing under the laws of California, with its principal place of business located at 751 North Canyons Parkway, Livermore, California.

3. KHypermedia is a corporation organized and existing under the laws of California, with its principal place of business located at 789 North Canyons Parkway, Livermore, California.

4. Plaintiff MEI is a Japanese corporation with its principal place of business in Kadoma-shi, Osaka, Japan.

Jurisdiction and Venue

5. This is an action for declaratory relief for which this Court has jurisdiction under 15 U.S.C. §§ 1331, 1338, and 2201.

6. This Court has personal jurisdiction over MEI at least by virtue of MEI expressly submitting to the jurisdiction of the Court by filing this action for patent infringement. In addition, upon information and belief, MEI has conducted and continues to conduct business within the State of California and in this District relating to its assertion and exploitation of the asserted patents.

7. Venue is proper in this District pursuant to 28 U.S.C. §§ 1391 because MEI is subject to personal jurisdiction in this District, because MEI is an alien, and because a substantial part of the events giving rise to the counterclaims have occurred in this District.

8. An actual case or controversy exists between the parties by virtue of the allegations raised in MEI's Complaint regarding the alleged patent infringement by Defendants and by virtue of Defendants' affirmative defenses.

First Counterclaim (Declaratory Judgment of Non-Infringement)

9. Defendants incorporate by reference the allegations in Paragraphs 1-8 of the Counterclaims, above.

10. MEI asserts in this litigation that Defendants have infringed and are infringing the asserted patents.

11. Defendants have not infringed nor are they currently infringing any claim of the asserted patents.

12. Accordingly, Defendants seek a judgment declaring that they have not infringed and currently are not infringing any claim of the asserted patents, either directly, contributorily, or by inducement.

Second Counterclaim (Declaratory Judgment of Invalidity)

13. Defendants incorporate by reference the allegations in Paragraphs 1-8 of the Counterclaims, above.

14. MEI asserts in this litigation that Defendants have infringed and are infringing the asserted patents and that the asserted patents were duly and legally issued.

15. The asserted patents are invalid for failure to meet the conditions for patentability set forth in Title 35 of the United States Code and Title 37 of the Code of Federal Regulations and associated rules and law, including without limitation 35 U.S.C. §§ 101, 102, 103, 112, and 251.

16. Accordingly, Defendants seek a judgment declaring that the asserted patents are invalid.

Third Counterclaim (Declaratory Judgment of Unenforceability for Inequitable Conduct)

17. Defendants incorporate by reference the allegations in Paragraphs 1-8 of the Counterclaims, above.

18. MEI asserts in this litigation that Defendants have infringed and are infringing the asserted patents.

19. The asserted patents are unenforceable at least because the inventors and/or their representatives committed inequitable conduct before the Patent Office during prosecution of the asserted patents.

A. The '132 Patent

20. The '132 patent is unenforceable due to inequitable conduct. For example, during the pendency of the application that matured into the '132 patent, at least the named inventors or their representatives (collectively, "the applicants") knew of several prior art

1 references that were material to the patentability of the '132 patent and failed to disclose these
2 references to the Patent Office. The material references that the applicants withheld from the
3 Patent Office include at least Japanese Patent Application Nos. JP-A-61034747, JP-A-62222442,
4 JP-A-62121944, and European Application No. EP-A-0184452.

5 21. Upon information and belief, the applicants were aware of these references
6 prior to the issuance of the '132 patent, at least because the references were identified in a
7 European Patent Office (EPO) search report. In particular, on June 5, 1989, during the
8 examination of a European counterpart to the '132 patent, and prior to the issuance of the '132
9 patent, the EPO generated a search report that identified these four prior art references.

10 22. The applicants did not disclose any of these references to the Patent Office
11 during the pendency of the '132 patent. These references were material to the patentability of the
12 '132 patent, are not cumulative of other information that was disclosed to the Patent Office during
13 the prosecution of the '132 patent, and were withheld from the Patent Office with an intent to
14 deceive.

15 **B. The '487 Patent**

16 23. The '487 patent is unenforceable due to inequitable conduct. For example,
17 during the pendency of the application that matured into the '487 patent, at least the named
18 inventors or their representatives (collectively, "the applicants") knew of several prior art
19 references that were material to the patentability of the '487 patent and failed to disclose these
20 references to the Patent Office. The material references that the applicants withheld from the
21 Patent Office include at least JP7-141786, JP60-067061, and JP62-097179.

22 24. The applicants were aware of these references prior to the issuance of the '487
23 patent, at least because the references were identified to the applicants by the Japanese Patent
24 Office (JPO). In particular, while the application for the '487 patent was pending, the JPO cited
25 these and other references as material prior art against the Japanese counterpart application to the
26 '487 patent.

27 25. The applicants did not disclose any of these references to the Patent Office
28 during the pendency of the '487 patent. These references are material to the patentability of the

1 '487 patent, are not cumulative of other information that was disclosed to the Patent Office during
2 the prosecution of the '487 patent, and were withheld from the Patent Office with an intent to
3 deceive.

4 **C. The '185 Patent**

5 26. The '185 patent is unenforceable due to inequitable conduct. For example,
6 during the pendency of the application that matured into the '185 patent, at least the named
7 inventors or their representatives (collectively, "the applicants") knew of several prior art
8 references that were material to the patentability of the '185 patent and failed to disclose these
9 references to the Patent Office. The material references that the applicants withheld from the
10 Patent Office include at least U.S. Patent No. 4,773,052 (the '052 patent), U.S. Patent No.
11 4,701,032 ('032 patent), JP 52-153705 (JP '705 patent), JP 60-125945 (JP '945 patent), JP 62-
12 250530 (JP '530 patent), JP 63-313379 (JP '379 patent), JP 64-027046 (JP '046 patent), an
13 excerpt from a book published in 1989 entitled "Rewriteable Laser Disc Material," an excerpt
14 from a book published in 1989 entitled "Laser Discs," an article entitled "Laser Disc System"
15 published in a Japanese journal in November 1981, JP 60-32142, JP 61-210531, an excerpt from
16 a book published in 1988 entitled "New Media Technology Series -- Laser Disc," and a 1986
17 Nikkei Electronics article excerpt.

18 27. The applicants were aware of these references prior to the issuance of the '185
19 patent, at least because the references were identified to the applicants by the EPO and the JPO.
20 In particular, two of these references, the '052 patent and the '032 patent, were cited by the EPO
21 during the examination of the applications for EP 0 862 165 and EP 0 862 166, both of which
22 were European counterparts of the '185 patent. Moreover, the abstract of the JP '705 patent was
23 cited by the EPO in the European Search Report for EP 0 452 953, which also is a European
24 counterpart of the '185 patent. All three references were cited by the EPO prior to the issuance of
25 the '185 patent. In addition, prior to the issuance of the '185 patent, the JPO cited the JP '945
26 patent, the JP '530 patent, the JP '379 patent, and the JP '046 patent as prior art during the
27 prosecution of a Japanese counterpart application. The remaining references listed above were
28

1 cited prior to the issuance of the '185 patent during opposition proceedings against the Japanese
2 counterpart patent, including the oppositions numbered 9-75644-1, 9-75644-3, and 9-75644-4.

3 28. The applicants did not disclose any of these references to the Patent Office
4 during the pendency of the '185 patent. These references are material to the patentability of the
5 claims in the '185 patent, are not cumulative to the information disclosed during the prosecution
6 of the '185 patent, and were withheld from the Patent Office with an intent to deceive. Moreover,
7 one or more of these references contradict arguments that the applicants made to the Patent Office
8 in order to overcome prior art cited during the prosecution of the '185 patent.

9 29. Accordingly, Defendants seek a judgment declaring that the asserted patents
10 are unenforceable due to inequitable conduct.

11 **Fourth Counterclaim (Declaratory Judgment of Unenforceability for Patent Misuse)**

12 30. Defendants incorporate by reference the allegations in Paragraphs 1-8 and 17-
13 29 of the Counterclaims and Paragraphs 40-61 of Defendants' Amended Answer (sixth
14 affirmative defense for patent misuse), above.

15 31. Upon information and belief, MEI has committed patent misuse through its
16 licensing behavior, its activities in connection with standard-setting organizations, and its
17 activities in connection with patent pooling arrangements relating to the asserted patents, as set
18 forth above in Paragraphs 40-61 of Defendants' Amended Answer (sixth affirmative defense for
19 patent misuse). MEI has also committed patent misuse because it has attempted to license and/or
20 enforce the asserted patents even though it knew or should have known them to be invalid and/or
21 unenforceable, as set forth in Counterclaim Paragraphs 17-29. The asserted patents are
22 unenforceable as a result of MEI's patent misuse.

23 32. Accordingly, Defendants seek a judgment declaring that the asserted patents
24 are unenforceable due to patent misuse.

25 **PRAYER FOR RELIEF**

26 WHEREFORE, Defendants respectfully request that this Court enter judgment in
27 their favor and grant the following relief:
28

1. Dismissal with prejudice of MEI's claims against Defendants and an order that MEI take nothing as a result of the Complaint;
2. Judgment that each of MEI's asserted patents is not infringed by Defendants, either directly or indirectly;
3. Judgment that each of MEI's asserted patents is invalid;
4. Judgment that each of MEI's asserted patents is unenforceable by reason of inequitable conduct and/or patent misuse;
5. Judgment that MEI's requested relief is barred by laches;
6. An order requiring that MEI pay all of the Defendants' costs associated with this suit, including attorney fees incurred in defense pursuant to 35 U.S.C. § 285;
7. Any and all other relief the Court deems just and proper.

DEMAND FOR JURY TRIAL

Defendants request a trial by jury in this matter on all issues so triable.

Dated: November 29, 2006

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By


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